



OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON DC 20503

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MEMORANDUM FOR CABINET OFFICERS AND
SENIOR WHITE HOUSE STAFF

FROM:

Jim Miller

Attached for your information is some material comparing the President's FY 1987 budget, the Senate Budget Resolution (passed on May 2nd), and the Democrat resolution which is being debated on the floor of the House today.

Very importantly, also attached is a copy of a letter (and statement) just released by the President, taking strong issue with the significant reductions for defense contained in the House resolution.

I hope you find this material useful.

Attachments

FY 1987 PRESIDENT'S BUDGET VS. FY 1987 SENATE BUDGET RESOLUTION VS. FY 1987 HOUSE BUDGET PLAN

FY 1987 PRESIDENT'S BUDGET

**FY 1987 SENATE
BUDGET RESOLUTION**

FY 1987 HOUSE BUDGET PLAN

Receipts and Collections

- o No new taxes.
- o Additional revenue of \$21.6 billion over 3 years from current sources.
- o Additional user fees and other non-programmatic reductions of \$21.2 billion over 3 years.

Domestic Programs

- o Programmatic cuts of \$121.5 billion over 3 years.
- o Termination of 44 major programs.

Defense

- o Defense budget authority of \$320 billion for 1987 and 3 percent real growth each year thereafter.

Receipts and Collections

- o New taxes of \$32.4 billion over 3 years.
- o Additional revenue of \$21.6 billion over 3 years from current sources.
- o Additional user fees and other non-programmatic reductions of \$10.9 billion over 3 years.

Domestic Programs

- o Program cuts of \$59.6 billion over 3 years.
- o Termination of only 2 programs.

Defense

- o Defense budget authority of \$301 billion in 1987 and one percent real growth thereafter.

Receipts and Collections

- o New taxes of \$32.4 billion over 3 years.
- o Additional revenue of \$21.6 billion over 3 years from current sources.
- o Additional user fees and other non-programmatic reductions of \$10.1 billion over 3 years..

Domestic Programs

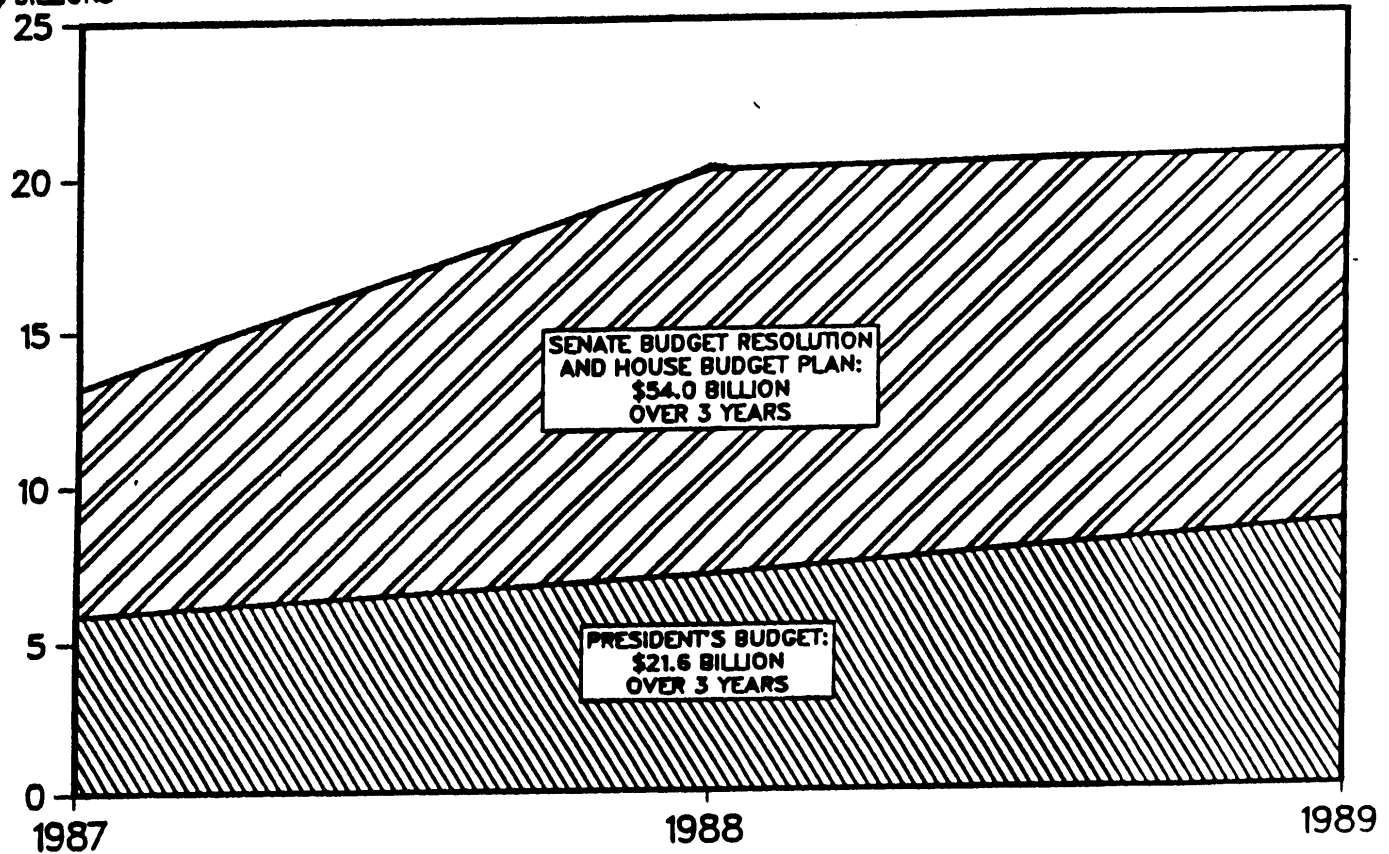
- o Programmatic cuts of \$48.9 billion over 3 years.
- o Termination of only 2 programs.

Defense

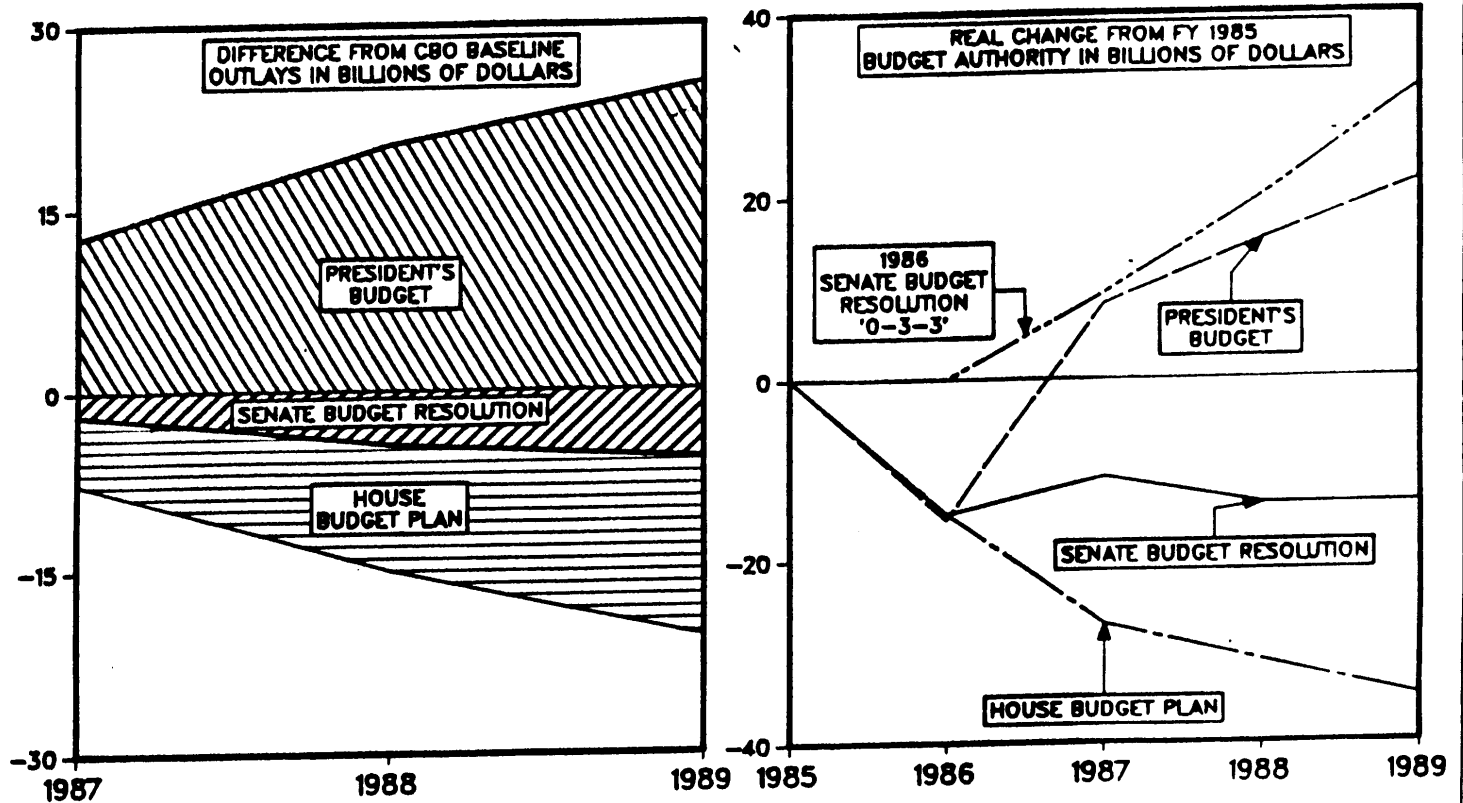
- o Defense budget authority of \$285 billion for 1987, no real growth thereafter.

REVENUE
INCREASE FROM
CBO BASELINE
\$ BILLIONS

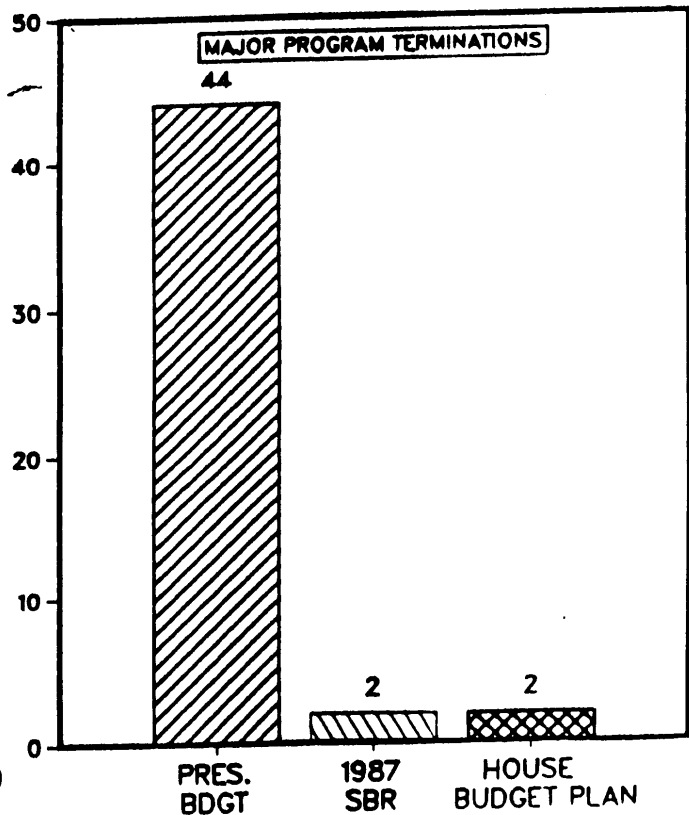
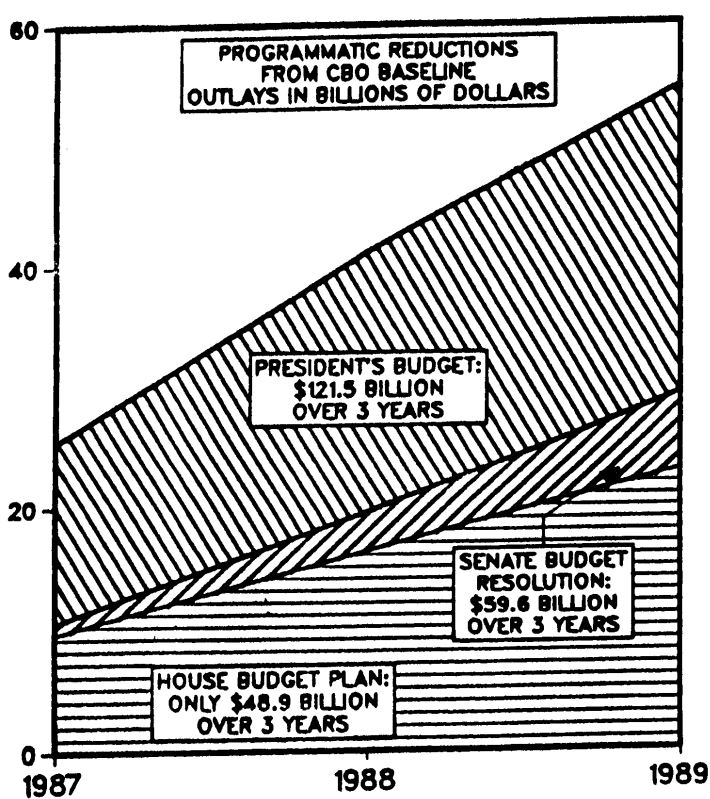
REVENUE COMPARISONS



DEFENSE CUTS COMPARISONS



DOMESTIC SAVINGS COMPARISONS



PROPOSED MAJOR PROGRAM TERMINATIONS

	President's Budget	Senate Budget Resolution	House Budget Plan
General revenue sharing.....	X	X	X
Conrail.....	X	X	X
Work incentive program (WIN).....	X		
Trade adjustment assistance to firms.....	X		
Appalachian Regional Commission.....	X		
Economic Development Administration.....	X		
Urban development action grants.....	X		
U.S. Travel and Tourism Administration.....	X		
Export-Import Bank direct loans.....	X		
Community services block grant.....	X		
Rental housing development action grant (HODAG).....	X		
Section 312 rehabilitation loan fund.....	X		
Postal subsidy.....	X		
FEMA supplemental emergency food and shelter.....	X		
Advanced communications technology satellite.....	X		
OPIC insurance programs.....	X		
Amtrak.....	X		
Interstate Commerce Commission (terminations and transfers).....	X		
Washington Metro construction grants.....	X		
Maritime cargo preference expansion.....	X		
EPA sewage treatment grants.....	X		
Impact aid (type "b" students).....	X		
Library programs.....	X		
Small higher education programs.....	X		
State student incentive grants.....	X		
College housing loans (new loans).....	X		
Public Health Service (health profession subsidies).....	X		
Legal Services Corporation.....	X		
Certain soil conservation programs.....	X		
Federal crop insurance program.....	X		
Rural crop insurance program.....	X		
Small Business Administration (eliminations and transfers).....	X		
Rental rehabilitation grants.....	X		
Section 8 moderate rehabilitation.....	X		
Section 202 elderly and handicapped housing.....	X		
Section 108 loan guarantee program.....	X		
Rural development program.....	X		
Rural Electrification Administration subsidies.....	X		
Weatherization assistance program.....	X		
LANDSAT (eliminate future subsidies for contractors).....	X		
Sea grant and coastal zone management grant programs.....	X		
Juvenile justice grants.....	X		
Justice State-local assistance grants.....	X		
Public debt reimbursements to Federal Reserve Banks.....	X		

President's Budget, Senate Budget Resolution, and House Budget Plan
(CBO estimates; in billions of dollars)*

	Change from CBO Baseline											
	President's Budget				Senate Budget Resolution				House Budget Plan**			
	1987	1988	1989	Total	1987	1988	1989	Total	1987	1988	1989	Total
Receipts and collections:												
Receipts increases.....	-5.9	-7.1	-8.6	-21.6	-13.2	-20.2	-20.6	-54.0	-13.2	-20.2	-20.6	-54.0
User fees.....	-2.4	-2.8	-3.2	-8.4	-1.1	-1.2	-1.2	-3.6	-1.5	-1.6	-1.5	-4.6
Asset sales.....	-1.9	-3.2	-7.7	-12.8	-3.0	-2.9	-0.3	-5.6	-4.5	-0.7	0.6	-4.6
Oil overcharge fund.....	0.0	0.0	0.0	0.0	-0.9	-0.9	-0.7	-2.5	-2.2	0.3	0.3	-1.7
OCS (950).....	0.0	0.0	0.0	0.0	-1.4	1.4	0.7	0.7	-1.4	1.4	0.7	0.8
Subtotal.....	-10.2	-13.1	-19.5	-42.8	-19.6	-23.8	-21.5	-64.9	-22.8	-20.7	-20.6	-64.1
Defense.....	12.7	20.2	25.1	58.0	-2.0	-4.6	-5.8	-12.4	-7.8	-15.0	-20.4	-43.2
International.....	1.2	1.7	1.8	4.7	-1.1	-1.6	-2.3	-5.0	-1.5	-2.3	-3.0	-6.7
Net Interest.....	-0.3	-1.8	-4.5	-6.6	-1.2	-2.7	-8.2	-12.1	-1.6	-3.1	-9.0	-13.7
Domestic program												
reestimates.....	0.0	0.0	0.0	0.0	-4.4	-4.4	-4.4	-13.2	-2.6	-3.5	-3.6	-9.7
Domestic program reductions	-25.7	-41.1	-54.6	-121.4	-10.4	-19.6	-29.6	-59.6	-9.4	-16.3	-23.1	-48.9
Total.....	-22.3	-34.1	-51.7	-108.1	-38.7	-56.7	-71.8	-167.2	-45.6	-60.9	-79.7	-186.2

Baseline and Proposed Levels

	CBO Baseline			President's Budget			Senate Budget Resolution			House Budget Plan		
	1987	1988	1989	1987	1988	1989	1987	1988	1989	1987	1988	1989
Receipts.....	844.0	921.0	991.3	849.9	928.1	999.9	857.2	941.2	1011.9	857.20	941.20	1011.90
Outlays:												
Defense.....	284.0	296.4	310.9	296.7	316.6	336.1	282.0	291.8	305.1	276.20	281.40	290.50
International.....	15.3	15.8	15.8	16.5	17.5	17.7	14.2	14.1	13.6	13.80	13.55	12.85
Net interest.....	145.1	154.6	157.9	144.8	152.8	153.4	143.9	152.0	149.8	143.50	151.50	148.95
Domestic ***.....	582.4	621.0	650.6	552.3	573.8	584.9	561.1	593.3	615.4	560.75	600.60	623.85
Deficit.....	182.7	166.7	143.9	160.4	132.6	92.2	144.0	110.1	72.1	137.05	105.85	64.25

* Minus (-) indicates deficit reduction.

** Includes COBRA savings and other changes that have been incorporated in the House Budget Committee baseline.

*** Includes proposed user fees, asset sales, and OCS receipts.

THE WHITE HOUSE
WASHINGTON

May 15, 1986

Dear Bob:

I am writing to express my deep concern regarding large reductions in our defense program recommended by the House Budget Committee. The Committee has proposed that my request for defense budget authority in 1987 be reduced by \$35 billion, from \$320B to \$285B.

The Committee-proposed level amounts to nearly a six percent real decline from FY86 levels. The FY86 level for defense was itself a six percent decline from the FY85 budget. Thus, the Committee's proposal amounts to almost a twelve percent real decline from the FY85 defense budget.

Bob, a twelve percent real decline in defense spending is hardly the "leveling-off" depicted by some. The Committee recommendations, if approved, would cripple the combat readiness of our conventional forces and take unacceptable risks with our national security at time when the immense Soviet military build-up continues uninterrupted. This radical anti-defense budget would tear down much of what we have built, together, these past five years, and return us to that era of the 1970's when the national defense was neglected, and our country paid world-wide and dearly for that neglect. Has the Congress so soon forgotten the consequences of short-changing national defense? I cannot believe the American people -- given the facts -- would approve of what the House Budget Committee would have us do. Its recommendations, taken together, represent nothing less than a breach of faith with our common duty to protect this nation.

While the impact of a \$35 billion reduction in FY87 would be severe, this Administration would seek to protect, to the extent possible, those programs and capabilities most vital to our national defense. These include the strategic modernization program, which also includes the Strategic Defense Initiative and improvements in command-and-control; our military personnel and the current force structure; and sensitive classified programs. Even so, there is no possibility that the large improvements in military personnel and readiness that have been achieved to date could be sustained in the face of a \$35 billion reduction recommended by the House Budget Committee. It would be very difficult to support the increases in size of U.S. forces already approved by the Congress; and program terminations and cancellation of proposed new starts would be unavoidable.

We would have to cut an entire Division from the Army, an Aircraft Carrier Battle Group, and tactical fighter wings from both the Air Force and the Navy. Termination of critical mobility programs such as the C-17 airlifter would further postpone the capability we need to deploy forces rapidly over long distances. Other critical programs would be terminated as well. These would include programs like a new field artillery support vehicle, the Army helicopter improvement program, a new 120mm mortar and ammunition, the AV-8B and A6E/F attack aircraft, the F-15, the JSTARS new surveillance aircraft, the TR-1 reconnaissance aircraft, and a number of other needed programs.

We would have to stretch-out or shelve research and development for over 50 programs. In addition, stretch-outs in the procurement of over 25 weapon systems would result not only in later than planned deployment but also in rising costs because of production inefficiencies. Programs like the M-1 tank, the Bradley fighting vehicle, F-16 and F-18 fighters, the EA-6B electronic warfare aircraft, the SSN-688 and SSN-21 class attack submarines, the CG-47 AEGIS cruisers, and many military

construction programs would be affected. As you can see, planned and required force expansion across the spectrum of military capability would have to be cut back.

Munitions cutbacks would reduce our ability to sustain forces in combat. We would see direct impact on programs like the GBU-15 bomb, Maverick, Harm, Tomahawk, Sparrow and Patriot missiles, light weight multipurpose ammunition, and ammunition mobilization facilities. Reductions in spare parts, support equipment, and communications equipment would lead to lower operational readiness. Depot maintenance capability would be reduced. Ship repair backlogs would increase. Operations accounts already severely cut in 1986 would not increase sufficiently to support forces and equipment; or satisfy essential readiness and training needs. In short, the impact on our defense capability would be pervasive and severe across the board.

In the final analysis, it is Congress that will determine specific funding levels for the programs I have discussed. While the priorities I have outlined are clear, it is impossible for me to predict the results of authorization and appropriation action. If such cuts are sustained, however, an action clearly damaging to our national security, I will make every effort to see them carried out in the manner I have outlined.

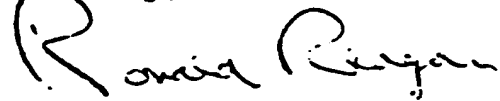
The accomplishments of the past five years are now in jeopardy because of the defense reductions being considered in Congress. Congress approved and set in motion our program for rebuilding America's military strength. It would be wasteful and irresponsible to cut short this program by denying the funding necessary to carry it out. We did not spend the last five years making our military more competitive and America secure again, only to undo it all in our second term. We must not return to the

short-sighted and discredited policies of the past which destroyed the confidence of our military personnel, undermined our military capabilities, and jeopardized America's security. The threat has not changed; this only increases the risk.

The decisions we make about our defense budget today determine the strength with which we can underwrite our security for years to come. The threat we anticipate, unfortunately, continues to grow. The House Budget Committee's proposed level for defense spending would increase the risk to each one of us by reversing the progress we have made and causing the gap between our national security requirements and our military capabilities to widen once again.

I know you and your colleagues will appreciate the profound importance of these issues to our defense and foreign policy as you consider the implications of the Budget Committee's recommendation.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ronald Reagan". The signature is fluid and cursive, with a large initial "R".

The Honorable Robert H. Michel
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

Presidential Statement on the Defense Budget

The President today informed the Congress of his deep concern regarding large reductions in his proposed defense program recommended by the House Budget Committee. The Committee has proposed that the President's request for defense budget authority in 1987 be reduced by \$35 billion, from \$320B to \$285B.

The Committee-proposed level amounts to nearly a six percent real decline from FY86 levels. The FY86 level for defense was itself a six percent decline from the FY85 budget. Thus, the Committee's proposal amounts to almost a twelve percent real decline from the FY85 defense budget.

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